

Credit Opinion

23 May 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A _g -
Outlook	Stable

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Huzhou Moganshan State-owned Capital Holding Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Huzhou Moganshan State-owned Capital Holding Group Co., Ltd., with stable outlook.

Summary

The A_g- long-term credit rating of Huzhou Moganshan State-owned Capital Holding Group Co., Ltd. ("HMSC" or the "Company") reflects Deqing County Government's (1) strong capacity to provide support; and (2) extremely high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Deqing County Government's capacity to provide support reflects its ongoing economic growth and good tourism resources, but constrained by its modest fiscal profile.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) status as the most important infrastructure construction and state-owned assets operation entity in Deqing County; (2) high sustainability of public policy businesses by undertaking a large number of major infrastructure construction projects of Deqing County and some key projects in Huzhou City; and (3) good track record of receiving government support.

However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) increasing debt level to support investment in construction projects; and (3) moderate asset liquidity.

The stable outlook on HMSC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its status as the most important infrastructure construction and state-owned assets operation entity in Deqing County.

Rating Drivers

- Most important infrastructure construction and state-owned assets operation entity in Deqing County
- High sustainability of public policy businesses
- Good track record of receiving government support
- Medium exposure to commercial activities
- Increasing debt level to support investment in construction projects
- Moderate asset liquidity
- Access to funding from banks and capital market

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as materially decrease in its exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decrease in its regional importance, materially decrease in government payments, or deteriorated debt management.

Key Indicators

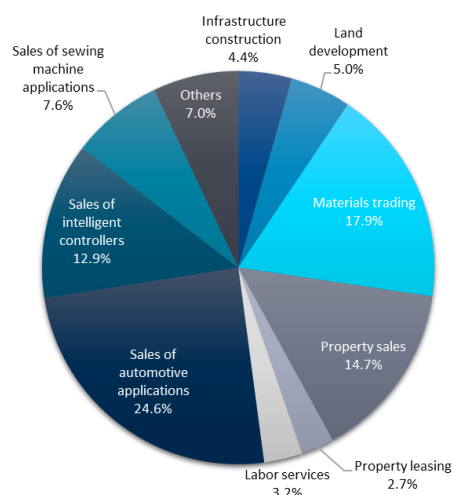
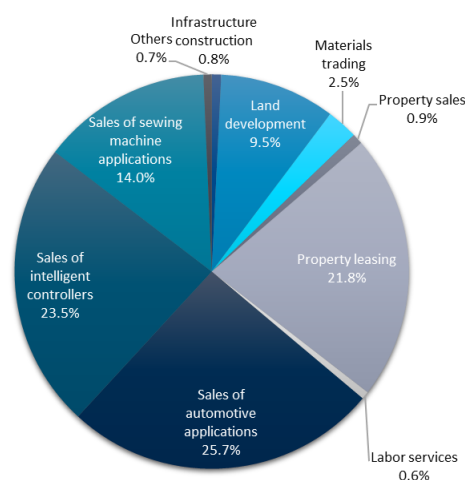
	2022FY	2023FY	2024FY
Total Asset (RMB billion)	90.5	114.2	121.0
Total Equity (RMB billion)	36.1	46.0	45.4
Total Revenue (RMB billion)	2.3	5.0	5.3
Total Debt/Total Capital (%)	58.1	57.1	59.9

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Formerly known as Deqing Zhichuang Industrial Park Construction and Development Co., Ltd., HMSC became the most important local infrastructure investment and financing company ("LIIFC") in Deqing County after the equity transfer in March 2023. The Company mainly engages in land development, infrastructure construction, resettlement housing construction, as well as commercial businesses such as materials sales, industrial park development, and sales of automotive applications, intelligent controllers and sewing machine applications. As of 31 December 2024, the Company is wholly owned and directly controlled by Moganshan High-tech Zone ("MHTZ") Management Committee, with registered capital and paid-in capital of RMB10.0 billion. MHTZ Management Committee is an agency of Huzhou Municipal Government, and holds comprehensive authority over the development, construction and economic management in the MHTZ. MHTZ Management Committee operates with the same personnel structure as the Deqing County Government.

Exhibit 1. Revenue structure in 2024**Exhibit 2. Gross profit structure in 2024**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that Deqing County Government has a strong capacity to provide support as reflected by its good geographic advantage, with good economic development and fiscal strength.

Zhejiang Province is one of the most economically developed provinces in China, and its comprehensive economic strength and private economy leads in China. In 2024, the gross regional product ("GRP") of Zhejiang Province was RMB9.0 trillion, ranking 4th among all provinces in China, with a year-on-year ("YoY") increase of 5.5%. In 2024, its general budgetary revenue reached RMB0.9 trillion, ranking 3rd among all provinces in China.

Located in the northern part of Zhejiang Province, Huzhou City is the node city connecting the north and south areas of the Yangtze River Delta region. Huzhou City has four leading industries including information technology, high-end equipment, health and tourism. It has achieved a significant increase in GRP over the past three years. In 2024, Huzhou City recorded a GRP of RMB421.3 billion, increasing by 5.8% YoY. Due to the economic recovery and industry growth, Huzhou Municipal Government's general budgetary revenue increased from RMB38.7 billion in 2022 to RMB41.1 billion in 2024. It also has good fiscal stability, with tax income accounting for around 80% of general budgetary revenue for the past three years. Its fiscal balance remained at a moderate level, with general budgetary revenue to general budgetary expenditure ratio of 70.0% in 2024. However, Huzhou Municipal Government's debt burden was relatively heavy with an outstanding direct government debt of RMB161.1 billion at end-2024, accounting for 38.2% of its GRP and 142.8% of its total fiscal revenue.

Exhibit 2. Key economic and fiscal indicators of Huzhou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	385.0	401.5	421.3
GRP Growth (%)	3.3	5.8	5.8
General Budgetary Revenue (RMB billion)	38.7	41.1	41.1
General Budgetary Expenditure (RMB billion)	60.2	60.7	59.1
Local Government Debt (RMB billion)	118.9	136.4	161.1

Source: Statistics Bureau of Huzhou City, CCXAP research

Located in the south part of Huzhou City, Deqing County is an important node county in the Hangzhou metropolitan area. According to research results of China's small and medium-sized cities' high-quality development index in 2024, it ranked 35th by comprehensive strength, 28th by green development, 32nd by science and technology innovation, 26th by new urbanization quality in China's top 100 counties. Deqing County has a balanced development in its primary, secondary and tertiary industries. It has generated a large number of modern industries, including advanced equipment manufacturing, biopharmaceutical, geographic information, general aviation, artificial intelligence and big data. Benefiting from the superior natural geographical environment, Deqing County has a national tourist resort Moganshan International Tourism Resort. In 2024, Deqing County recorded a GRP of RMB72.3 billion, increasing by 5.8% YoY, ranking third among 5 districts and counties in Huzhou City. Its general budgetary revenue also increased from RMB8.0 billion in 2022 to RMB8.5 billion in 2024, ranking second in Huzhou City, with tax incomes accounting for nearly 72% of its general budgetary revenue. Deqing County has a good fiscal balance and manageable debt profile, with a general budgetary revenue to general budgetary expenditure ratio of 82.3% in 2024. It has outstanding government debt of RMB22.3 billion at end-2024, representing 20.9% of GRP and 111.5% of total fiscal revenue.

Exhibit 3. Key economic and fiscal indicators of Deqing County

	2022FY	2023FY	2024FY
GRP (RMB billion)	65.8	68.1	72.3
GRP Growth (%)	3.8	5.3	5.8
General Budgetary Revenue (RMB billion)	8.0	8.5	8.5
General Budgetary Expenditure (RMB billion)	10.2	10.8	10.3
Local Government Debt (RMB billion)	14.7	19.6	22.3

Source: Statistics Bureau of Deqing County, CCXAP research

Formerly known as Deqing Economic Development Zone, MHTZ has been approved as a national-level high-tech industry development zone in Deqing County by the State Council in September 2015. According to the list of China's top 100 high-tech zones released by Shangqi Research Institute, MHTZ ranked 36th by specialization, refinement, distinctiveness, and novelty among 178 national high-tech zones in 2023. MHTZ focuses on the cultivation of high-tech enterprises and new industries, and aims to build a leading innovative development zone in the country. The leading industries of MHTZ include geographic information, general aviation, artificial intelligence, and high-end equipment manufacturing. With a friendly environment for technology and innovation businesses, MHTZ has attracted a large number of enterprises to set up facilities, branches or offices, gathering 389 enterprises above designated size, 6 main board listed companies, and 293 high-tech enterprises at the end of 2023. In 2023, MHTZ realized fiscal revenue of RMB4.9 billion with a YoY growth rate of 15.9%. Deqing County and MHTZ have achieved rapid economic and societal growth in recent years, which has provided opportunities and needs for the development of infrastructure and supporting facilities in MHTZ, in turn driving the growth of HMSC's business.

Government's Willingness to Provide Support

Most important infrastructure construction and state-owned assets operation entity in Deqing County

There are four key LIIFCs in Deqing County, each with clear positioning in the development of the region. HMSC is the largest and most important state-owned capital investment platform entity in the region, and plays a vital role in conducting infrastructure construction projects, such as conducting land consolidation and infrastructure construction projects in the MHTZ, with strong regional franchise advantages. As the primary infrastructure construction and industrial park development operation platform in the MHTZ, the Company has undertaken a number of infrastructure construction and industrial park development projects within MHTZ, making great

contributions to the local social and economic development, benefiting investment attraction and improving related industrial chains in the MHTZ. Considering its strategic importance in undertaking infrastructure construction projects in the region, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of public policy businesses

As the most important infrastructure construction and state-owned assets operation entity in Deqing County, HMSC has continuously participated in public policy businesses, such as land development, infrastructure construction, and resettlement housing construction. There are considerable construction projects in the pipeline, ensuring the Company's business sustainability, but also exerting high capital expenditure pressure to the Company.

HMSC is entrusted by the local government to undertake land development projects in MHTZ with regional monopoly advantages. The Company is mainly responsible for land leveling and construction of supporting facilities and other necessary services after the expropriation of the land, and receives the development costs incurred plus a certain markup after the selling of developed land. As of 30 September 2024, the Company had confirmed revenue and received repayments of RMB2.4 billion. The Company has transferable land reserves of about 14,706 mu, with a total invested amount of RMB30.3 billion, indicating certain fund recovery pressure. At end-2024Q3, the Company had 5 land development projects under consolidating with a total planned investment of RMB44.4 billion and an uninvested amount of RMB15.4 billion. Overall, the Company owns a large amount of land reserves ensuring the sustainability of this business, but there is uncertainty subject to the local government's planning and the regional land market conditions.

The Company undertakes infrastructure construction projects under agency construction model by signing entrusted construction agreements with local government, and receives payments based on actual incurred costs plus certain markup to the Company according to the construction progress. The Company bears manageable capital expenditure pressure as project payment mainly relies on funds from special government bonds. As of 30 September 2024, the Company had 45 infrastructure construction projects under construction, with a total planned investment of around RMB8.6 billion and an outstanding amount of around RMB4.8 billion. Among these projects, there are 3 projects funded by Huzhou Municipal Finance Department with agency construction contracts. Besides, the Company also had 12 projects under planning with a total planned investment of RMB1.8 billion. As of 30 September 2024, the Company had RMB565.0 million in outstanding special bonds dedicated to infrastructure development projects. Given the sufficient infrastructure projects in the pipeline, we believe the Company's infrastructure construction business has good sustainability.

In addition, the Company is involved in the resettlement housing business through outsourcing and self-operated models. The Company is entrusted by government agencies to undertake resettlement housing construction projects and achieves fund balancing through sales after the projects are completed. The resettlement housing will be first sold to qualified applicants at guidance prices set by the government and the remaining housing and supporting shops will be sold at market prices. However, the resettlement housing projects generally have long selling cycle and moderate destocking pace, with a total of 2,985 residential units and 389 parking spaces remained unsold. As of 30 September 2024, the Company had 4 resettlement housing projects under construction with a total planned investment of RM4.3 billion and an outstanding amount of RMB1.8 billion. The combined effects of large-scale construction and high destocking pressure may increase its capital expenditure pressure amid the decelerated property market in China.

Medium exposure to commercial activities with large capital expenditure

HMSC's exposure to commercial activities is medium as its commercial assets accounted for around 30% of total asset as of 31 December 2024. The commercial businesses mainly include materials sales, industrial park development and sales of automotive applications, intelligent controllers and sewing machine applications. These activities have been a good supplement to the Company's revenue but could exert certain funding pressure and business risks.

The Company participates in the industrial park development business in MHTZ under the self-operated model with strong competitiveness in the region. The Company conducts sales and leasing of factories and commercial properties in accordance with the development plans of the local governments, attracting enterprises and investments for the development of MHTZ. As of 30 September 2024, the Company had 17 completed industrial park development projects, with a total invested amount of around RMB5.8 billion and a total construction area of 1,075.1 thousand square meters. Around 9.2% of the completed projects have been sold and the remaining are mainly used for leasing. Meanwhile, the Company had 40 projects under construction with a total planned investment of RMB21.4 billion and an uninvested amount of RMB8.6 billion and 5 projects under planning with an estimated investment of RMB4.8 billion, exerting high capital expenditure pressure. Aligned with industrial investment priorities in MHTZ, the Company's industrial park development projects would generate stable leasing income, with project financing primarily secured through long-term bank credit facilities. However, considering the relatively large scale of capital expenditure as well as the slow progress of project construction, there are uncertainties with regard to the subsequent fund balancing of these projects as it is highly subject to local industrial development and investment promotion policies.

The Company is also engaged in materials trading business based on a demand-driven business model, with trading products mainly consisting of steel, air conditioners, elevators, tiles, and non-ferrous aluminum ingots. This business is the second largest income contributor of the Company, accounting for 17.9% of its total revenue in 2024, but recording a low gross profit margin of around 1.3%. However, this business has a high concentration risk as the top five suppliers accounted for 94.5% of the total procurement and the sales from the top five customers accounted for 74.1% of the total sales in the first three quarter of 2024.

In April 2023, HMSC became the controlling shareholder of Zhejiang Founder Electric Motor Co., Ltd. ("Founder Electric", Stock code: 002196.SZ), broadening its business scope into sales of automotive applications, intelligent controllers and sewing machine applications. Founder Electric sells new energy drive motors, intelligent controllers, sewing machines and automotive electronic products through self-production, self-processing and outsourcing. The cumulative shipments of Founder Electric's main product, the new energy drive motor series, exceeded 3 million units, accounting for more than 10% of total new energy car ownership in China. Taking advantage of Vietnam's low manufacturing costs and preferential tax policies, Founder Electric has occupied 75% of the global share in the household sewing machines industry. The business is the largest income driver of the Company, accounting for 45.1% of total revenue in 2024. The acquisition of Founder Electric has made great contributions to the Company's revenue and gross profit, however, it may also pose higher operational and business risks to the Company.

Increasing debt level to support investment in construction projects

With the continuous external financing for the construction projects, HMSC's debt burden has continued to grow over the past year. The Company's total debt increased from RMB50.1 billion at end-2022 to RMB67.8 billion at end-2024, with a high total capitalization ratio of 59.9%. In addition, the Company is exposed to certain short-term debt repayment pressure. As of 31 December 2024, its short-term debt accounted for about 26.4% of total debt. Meanwhile, the cash to short-term debt ratio was 0.2x, indicating that its cash reserve could not fully cover

the short-term debt. With large number of construction projects under construction, we expect that the Company will continue to rely on external financing to meet its future capital expenditure needs, and its debt leverage will remain at high level in the next 12 to 18 months.

HMSC has certain exposure to external guarantees. At end-2024, HMSC's external guarantees amounted to RMB2.1 billion, accounting for 4.7% of its net assets. Most of the external guarantees are provided to the state-owned enterprises in Deqing County, with low credit risks. We believe the Company's contingent liability risk is manageable.

Moderate asset liquidity

HMSC's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of inventories and receivables, which accounted for 59.3% of its total assets as of 31 December 2024, both with low liquidity. The inventories are development costs from land development projects, infrastructure construction projects and resettlement housing projects, while the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises. Meanwhile, the Company holds a relatively large scale of trading financial assets, long-term equity investment, other equity instrument investments, other non-current financial assets, intangible assets and investment properties, accounting for around 29.6% of total assets, and generating supplementary income to the Company.

Good track record of receiving government support

In recognition of the Company's importance of public activities in Deqing County, HMSC has a proven track record of receiving support from the local government in terms of financial subsidies and asset injections. In March 2023, the local government transferred 100% of equity shares of Huzhou Moganshan High-tech Group Co., Ltd. and other local state-owned enterprises to the Company without compensation, greatly enhancing its capital strength and broadening its business scope. From 2022 to 2024, the Company also received stable government subsidies of RMB2.0 billion, to support its operation and improve its profitability.

Besides, the Company is directly controlled by the Moganshan High-Tech Industrial Development Zone Administrative Committee, which operates as an agency of the Huzhou Municipal Government. Considering its important strategic role in Huzhou City, especially in Deqing County, we expect the Company will receive support from Deqing County Government and even the Huzhou Municipal Government in times of need.

Access to funding from banks and capital market

HMSC has good access to fundings, reflected by its sufficient stand-by liquidity and access to bond financing. The Company has good relationship with multiple commercial banks and policy banks in China. As of 30 September 2024, around 51.4% of the Company's debt financing was provided by domestic banks with total credit facilities of RMB46.6 billion and an unutilized portion of RMB8.0 billion, indicating sufficient liquidity buffer. The Company and its subsidiary have issued various bond products, including CPs, MTNs, corporate bonds, and offshore USD bonds, with an outstanding amount of RMB19.7 billion and USD420.0 million at end-2024, respectively. The large amount of outstanding bonds brings certain refinancing pressure to the Company as it is susceptible to changes in the capital market. In addition, the Company's exposure to non-standard financing is low, accounting for about 6.9% of total debt as of 30 September 2024. We consider the Company's diversified funding channels can largely fulfill its future refinancing needs and capital expenditure.

ESG Considerations

HMSC bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

HMSC is also exposed to social risks as a public services provider in Deqing County. Demographic changes, public awareness and social priorities shape government's target for HMSC, or affect the government's propensity to support the Company.

HMSC's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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